"Techno Electric & Engineering Limited Q4 FY'24 Earnings Conference Call"

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MODERATOR: **MR. SURAJ SONULKAR - ASIAN MARKET SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Techno Electric & Engineering Company Limited Q4 FY '24 Earnings Conference Call hosted by Asian Market Securities Limited.

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I now hand the conference over to Mr. Suraj Sonulkar from Asian Market Securities Limited. Thank you, and over to you, sir.

Suraj Sonulkar: Thank you, Neha. Good afternoon, everyone. On behalf of Asian Market Security, we welcome you all to Q4 FY '24 Earnings Conference Call of Techno Electric & Engineering Company Limited. We have with us today Mr. P.P. Guptaji, Chairman and Managing Director; and Mr. Ankit Saraiya, Director representing the company. I request Sri Guptaji to take us through the overview of quarterly results, and then we shall begin with the Q&A session. Over to you, Guptaji, sir.

Padam Gupta: Yes. Thank you, Suraj. Very good afternoon to all of you, and I welcome everyone to discuss our financial results for the quarter ended 31st March 2024 and for the full year '23, '24. Anything said on this call, which reflects our outlook for the future or that could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the industry and in turn company faces.

Let me highlight our performance and I'm very happy to share with all of you that so far, this is the best performance of the company in recent past, I will say, but this is only the beginning of the journey. I had mentioned a year back that morning has happened. So you can take it as a first bright shine of the sun where sun is yet to go beyond 8 AM in the day horizon.

Taking -- let me quickly highlight our performance for the Q4 financial year '24. The company has created as you all know, the setup ASPV for a 40-megawatt data center at Chennai. The asset is still in implementation stage and is not revenue accretive, but is definitely value accretive. In the consolidated results, we knock off the value of the work done for this SPV as per the accounting standard requirement. And that is the major difference in the stand-alone and consolidated results. As and when this asset becomes revenue-accretive, it will start showing -- it will become part of the mainstream results.

As you can observe from the details furnished on the exchanges, the total revenue of the company in stand-alone is at INR482.67 crores for this quarter and is up by 7.5% year-on-year and almost about 30% higher than quarter-on-quarter. The EBITDA for this company is at

INR58.84 crores and is up by 52% year-on-year. The other income is at INR31 crores approximately, and it is higher by about 40% on last year. The profit before tax is at INR83.5 crores, higher by about 58%. The PAT of the company in this quarter is at INR69 crores, up by about 91%. The EPS in this quarter is at INR6.45, which is almost double of last year.

In the full year, I will say our revenue is at INR1,680 crores, which is about 75% higher on year-on-year basis. And EBITDA for the company is at INR226.9 crores, which is almost about double of last year, the EBITDA margin is at 13% compared to 12.5% last year. Other income for this year is at INR131 crores compared to INR74.30 crores last year. The company has made in addition, another OCI income of net of tax at INR28 crores during the year.

The profit before tax is at about INR334 crores, which is almost double of last year, and profit after tax is at INR270 crores compared to INR128 crores of last year, but if we add OCI income to it, the total profit will be at INR298 crores. The EPS without considering OCI income is at INR25.3 compared to INR11.73 crores last year, which is INR11.7 last year, which is almost 115% up. The cash or current investment value as cash and cash equivalent in our books continues to be at INR1,200 crores, which again means about INR110 per [month 0:06:52] and this treasury income out of this deployment of funds will continue to be a reckoning income for the company.

For the financial year '24, we have received the order intake of INR7,000 crores, all-time high in our history of the company. The unexecuted order book is at INR9,200 crores already and we are -- after March, we are already placed L1 in business worth about INR10,050 crores. We have won during the year 2 TBCB concessions, one at Gogamukh and another at Bokajan, which together means revenue over the concession period entitlement of INR2,800 crores. And the expected value of EPC works out of these two companies will be almost about INR675 crores.

Similarly, we are also placed L1 in Punjab for feeder metering, which is a high-end meter work. The total meter deployed is only 1.86 lakhs, but the order value is INR661 crores implying thereby that each meter is about INR37,000 to INR38,000. We hope to get more business, but putting conservatively that we should at least can expect INR5,000 crores this year to out of the opportunities available in the market, but the pipeline is a lot more.

We have announced a dividend of INR7 per share, which amounts to 350% on the face value of the share. Similarly, I would like to mention, as you all know, that we are likely to go for a QIP of INR1,250 crores but mainly, we would like to engage with large FII FPIs and mutual funds for the issue.

On the outlook side, I will say it is a very bright after a negligible or nil energy growth over almost continuously for last 8 years, the energy demand is back and is all-time high and demand growth is in double digit now. The present peak load demand in the grid is no less than 240 gigawatt and is expected to be 400 gigawatt by 2030, thereby employing that as per the per capita consumption of power in India is growing phenomenally, which is at present 1,250 units per capita is likely to be 1,750 units by 2030. So we are catching up with the rest of the countries in the world.

To meet this demand, obviously, the power plant capacity has to be enhanced, both in conventional energy by 80 gigawatt as approved by government, and also the energy transformation is happening of achieving a renewable power penetration of 500 gigawatt to the existing to our grid by 2030 is also on track.

All this means that the sector is now transforming usually, and it will necessitate deploying high-end solutions, high-end in scale and complexity, namely supercritical power plants, 765-kV, AIS/GIS Transmission Solutions, STATCOM Solutions, VSC-HVDC solutions backed by best order pumping storage solution facilities or gas-based facilities where your company has a larger presence than any other entity in the marketplace, I will say. So I can call that all that this means what implies a paradigm shift in the positioning of the company in this space.

As you all know that your company is presently present in all the areas of the power sector, we can call 360-degree presence in all value chain of the power sector, namely, we are part of the transmission solutions, high-end transmission solutions, we are part of the AQI solutions, namely FGD, Air Quality Implementation solutions. We are present in the digitization of the distribution networks as well as smart metering deployment and RDSS scheme of the Government of India. We are also present in the hyperscale as well as in the edge data centers in the country going forward.

So all this means use business, all these verticals are full of potentiality and it is for the company now to take a larger lead and harness the opportunities. All these verticals are full of opportunities. Coming back to renewable power, I will say that CA has already given a report on transmission that to penetrate 500 gigawatt by 2030, a capex of almost about INR2.4 trillion will be required and which means almost an addition of more than 4 lakh MVA transforming capacity and about 51,000 circuit kilometer of lines.

And simultaneously with these investments, the interregional transfer power capacity will also get enhanced under ISTS mode to no less than 100 gigawatt by 2030. Thus, power grid sees a large addressable market and our estimate is they have already announced a capex of INR1.71 lakh crores up to 2030 and almost about INR2.5 lakh crores by 2032. And we expect and they have announced the revival of capex to 20,000 for current year and 25,000 for the next year. So next 2 years, this is the target of power grid. This makes us optimistic pickup in power grid capex, asset capitalization, which again means a sizable opportunity for Techno.

I'm happy to share with you that even today, just over back, we have won -- we have placed L1 in a transmission concession at Ladakh for [Nilgad 0:14:30] project, value about INR170 crores. So all this means even in conventional thermal power plants where your company has been playing -- played a significant role in setting up no less than half the conventional power capacity in the country over the last 4 decades, this also means an opportunity to us as a balance of plant or switch yards in the country.

On the distribution side under RDSS scheme, a lot is happening now. Apart from smart metering, a lot of digitization of the networks is happening. We are already doing digitization of the distribution network of DVC in their command area in Jharkhand and West Bengal. So these distribution networks in the coming days are going to become more smarter and intelligent. And obviously, they can be remotely controlled and consumer will stand served like telecom.

Apart from these, we will definitely need some supportive areas, which will come in the future, like battery storage solutions or pumping storage solutions and also, I will say, deployment of STATCOMs and HVDC solutions and your company is qualified and competent to provide all these solutions in this space because we have the presence in the power space only.

The FGD segment is also we see the momentum is back. We are finding a lot of traction from the SCBs now to set up FGD plants in their ongoing thermal power plants. Still almost about 125 gigawatt is yet to be fitted with FGD, which mainly comprised of leftover works of CPSUs, but mainly of SMEs and private sector. And total capex involved is no less than INR1 lakh crores in this area.

The TVCB transmission segment, again, the TVCB bidding is happening strongly and almost about INR40,000 crores of bids are already in the bidding process, and we are supporting different bidders. On the station side, we have already won transmission assets, transmission station work of INR4,300 crores in the last year. And we also won two TVCB orders, as mentioned earlier, with the revenue entitlement of INR2,800 crores.

Similarly, Metering segment, we are already doing 3 million meters for the order value of INR3,500 crores in the states of J&K, Tripura, Jharkhand and MP at Indore city. And we are also now L1 in Punjab to do again a high-end metering work of the feeders, which is only about 1.86 lakh for almost the order value of INR666 crores.

So similarly on data center side, I will say that we have recently won a concession from RailTel where we will be setting up 100-plus edge data centers on the very prominent all railway stations of the Indian Railways under digitization plan of the railway in partnership with RailTel. We anticipate this to be a very huge opportunity. To begin with, as a value accretive and later on as a business.

Similarly in data center also we will say that lot of scope is growing with every passing day and we expect that almost the capacity of data center will be about no less than 1.5 gigawatt by 2025 and this is likely to be about 5 gigawatt by 2030, I will say, which is a huge business potential again. We have been allotted land in Kolkata to set up a data center next to the various data centers being set up by STT and Reliance as well as Adani Connect, I will say.

The market size in this in terms of revenue is likely to be no less than $5 billion by 2030 year-on-year. The growth drivers of data centers you all know is basically out of the cloud services which have become a way of life in efficiency and cost economy. Also the policy of government on DPDP, data privatization, data localization and so much of digitization, un-phenomenal digitization which has happened in the country over last four years post COVID.

We are next to no other country in the world now in this space whether they are DBT or payment vehicles or e-commerce or IoT or OTT or ISP services, almost 800 million people are on ISP now even in the rural areas. So all this means a lot and additionally this sector is also now usually charged by AI, Artificial Intelligence, which means again I see going forward gigawatt scale digital data centers happening in the country just like transmission stations. Probably 10 years back none could have visualized a substation with a capacity of 10 gigawatt to 25 gigawatt each, which is becoming an order of the day now.

So all this means use opportunities for your company. I will say that our data center is likely to be ready by September '25 in Chennai and we see a lot of interest in this and we have spent by now about INE300 crores in this facility I will say.

Another good thing which has happened that whatever assets we had created over the last 15 years now stands monetized successfully in last four to five years and we possess no asset on hand today other than the data center under construction.

Our all assets in renewable power transmission assets under PPP model or under TBC mode all stands monetized. This has resulted in a strong balance sheet, very strong balance sheet with a cash surplus of INR1,500 crores in the books of the company and is available for next phase of growth and deployment for all these opportunities. Again, I would like to repeat that during the last year I had mentioned that morning has become and this is only the first shine of the sun which will keep brightening with every passing year.

We are confident to achieve a revenue of INR2,500 crores for the current year and another similar growth to INR3,500 crores for the next year or more, the EPS will be INR35 for the current year and INR50 plus for the next year ending with March 2026.

With this, I will now invite your participation and anything you want to know more about us, you are welcome.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Madhu Kela from MK Ventures. Please go ahead.

Madhu Kela: Good afternoon and thank you so much. And first of all, congratulations from my side more importantly, holding the company together in most difficult times. I think you are one of the few people.

Moderator: Sorry to interrupt you, sir. I request you to use the handset, please.

Madhu Kela: I said you are one of the few people I know in the power sector who have generated real positive cash flow in such a troubled time in the last 20, 30 years of the sector. So image of our company, Guptaji, is generally that we are conservative and my fear is not on the opportunity. My fear is more on the how well the company is prepared to capture this opportunity and it will benefit a lot if you can elaborate you said that what we can achieve in the next 2 years, but if you can elaborate what the possibility and aspiration of the company is over the next 4 years, 5 years I think that will serve a lot of purpose. According to me, this company has a potential to even do a INR10,000 crores top line if we take a 5-year view. So would you concur with that? And are we even aspiring to achieve something like that?

Padam Gupta: Your question is very inspirational and soul searching I would say. Definitely, in my lifetime, I have been conservative and I trust this has rewarded the company and now the timings of growth keeping behind any of the challenges on I will say the geopolitics or the very impact in the country I fully agree with you that Techno can do INR10,000 CR by 2030 without any doubt.

And it is doubling year-on-year. This year it is almost double of last year and next year again it will be no less than 70%, 80% of this year and the growth will go on like this. I'm very sure, sir that we'll be able to meet the expectation of the investor community, but we have to evolve. Can you hear me, sir?

Madhu Kela: Yes, I can hear you.

Padam Gupta: Company has to evolve and transform itself which we are doing it. We have set up an office in Delhi and we are now doubling or rather I will say tripling the size of the office in Delhi sir. It is a part of our own complex where Tata, Bata are also our tenants in Gurgaon. We have taken a full flow of 6 floors of the building. It is under furnishing. A lot of people are under recruitment on the IT side, data center side as well as on the transmission, smart metering.

We are very focused on IT layered power solutions and we believe that is a future of power. And it is more rewarding than pure commodity solutions in power sector. So I can assure you that we will rise to achieve 10,000 by if not '28 at least by 2030.

Madhu Kela: I have a few more questions, if you don't mind, I can carry on. One is that you -- we already have INR1,500 crores of cash. You said that we will raise INR1,250 crores by way of QIP that makes it INR2,750 crores plus the profit of over the next 3 years plus the monetization of the data center which you had already alluded to. So this will be a lot of cash roughly INR5,000 crores or more based on my 360-degree calculation.

So if you can elaborate as to where are we planning to use this cash and knowing you, I'm sure you have never been in a capital intensive mood. So wherever we use this cash, when -- how this cash will come back and what kind of threshold IRR we are looking at while we are investing this cash?

Padam Gupta: Sir, you want to know my business secrets.

Madhu Kela: Guptaji that is important for a shareholder like us we only get this chance once in a quarter.

Padam Gupta: What we see in the market of investments that generally an investor always looks for phenomenal returns in India while deploying funds when project is in a buildup construction stage, deployment stage. They don't trust our type of firms to do jobs in time, quality jobs in time, create sustainable value accretive assets. So all these challenges makes them expect 16%, 18% returns on whatever money they invest.

My takeaway has always been that Techno good in it. We have successfully done it. We have delivered more than 400 projects in the past. So there is no reason to have money from any of these investors while deploying the assets whether it is smart meter, it data centers or even TBCB projects or any other project of a large value we may like to take tomorrow [BESS or PSO 30:28] or any other emerging solutions you see.

So my takeaway is that I must be sufficiently funded where I build these assets out of my own firms and then monetize when they are revenue accretive, not when they are in that capex mode. Once it is ready for opex solution, we are there with them. And then the investor is ready to be part of us at 10%, 12% also. So that delta of 5% I want my investors to earn along with us as a financial reward which we have done like we created assets in transmission, renewable power in the last 10 years, 15 years worth about INR4,000 cr.

And we made a capital gain of no less than I will say about INR750 cr in parting those assets all at a gain. If equity deployed was in those assets was almost about say INR1,500 crores, we received 1.5x on those assets. So same strategy we want to deploy here. You make EPC margin while deploying the asset. And after that asset is revenue accretive bringing an investor and part of with it. So that this INR5,000 cr remains critical investment all the time with the company.

We are going forward. We are able to sustain even any odd happening in the market. Many infra companies in last 10 years failed because a lot of counter-party commitments were not kept by them. The biggest haunts me the company called IL&FS. So use and still so big a failure in the market only because of the counter-party risk.

So it is always a good idea that when you build these kind of capex you must have another amount in pocket to sustain it for a year or more even if anything goes wrong. So all these considerations are behind us I can say while building on it a financial model like this.

Madhu Kela: My last question is while financially we are prepared to really capture this opportunity and I trust you, can you elaborate a little bit more on the mine power requirement, what kind of people will require to execute and make this company go to INR10,000 crores in the next 4 years, 5 years and what are the real biggest challenges which could come in our way to achieve this objective?

Padam Gupta: I will only say that the challenge is always learning and remained ahead of learning as a requirement of the very solution and that is why we always remained in a power vertical, not as an element, but as a 360-degree presence in this sector. We understand this sector as a very electricity act very regulatory nuance, very nuance of the programs of the government of India and its achievements and as well as our participation in this sector that most large players in this sector today say that Techno can do what they are capable of doing.

And also, we are serving them additionally I would say, but where we are differentiating over others is by going beyond power into power gasoline solutions like data. I believe society will depend on two things going forward. One is a data and other is energy. Like if you read the statement of Tesla's Chairman he has only had, I can create as many data centers catering AI solutions as possible, but I don't believe energy will be available, pipeline to energy will be available.

So this is where Techno wins over many others that I can create data handling solutions as well as provide energy to them both. As India is globally competitive today in energy. The energy if you look on Singapore, you look on Europe, you look on America nowhere this energy today is less than 12 cents to 20 cents whereas in India we can provide 8 cents even today in these applications.

So gradually what we will realize the importance of location as India just more of our Indian capabilities, which all have served abroad successfully but not in India on Indian soil. That is where we want to blend with them sir. And all this knowledge has to be part of Techno. I will like Ankit to elaborate on this. We have already done many recruitments. Ankit will elaborate that. Ankit, are you there?

Ankit Saraiya: Yes, I'm here.

Padam Gupta: Yes, can you elaborate what -- how you are going about recruitment and expanding daily as a wish.

Ankit Saraiya: Yes. Over the last 6 months, we've made a target to start recruiting leadership teams for different roles and responsibilities and addressing it more on each vertical basis. So today, we largely define Techno into 4 verticals, 1 being obviously the TND, FGD, smart meter and data centers. And we've come to realize that each vertical has to have its own leadership team and its own -- each has to be kept as a business unit in and SBU per se. And that's how those recruitments have already started.

So, as we speak we have already taken on board, Mr. James Trout from U.S., who was the founder of Vantage Data Center Core site. Both the companies today being close to $15 billion each. And he was the founder who exited to Silver Lake Capital. He was also the founder of the largest DC open data center operator in the world today, which is Digital Realty. He was a founding member of that group. So he's onboarded now on the Board to guide us developing largely the marketing, sales and operations team.

And we started engaging with those deals in U.S. So, we are trying to create a team in U.S. itself to work closely with these hyperscalers like Amazon, Google and others where the design decisions take place. Execution may happen through APAC, India but the larger design decisions happen over there and we want to start influencing those. Similarly, we are starting to create a business -we are exploring to engage a business unit head for data centers along with a very large sales team. For the reason that changed the strategy and going forward, we've engaged with -- we are trying to bring a good finance and accounts team also for the entire group.

Padam Gupta: Mr. Mishra, you can highlight on the renewable side.

Ankit Saraiya: Yes. And on the renewables, we've also engaged with Mr. Shailesh Mishra, who was Director of Technical and Solar Energy Corporation of India, he's full time with us now. And his guidance and his visions on what renewable energy or power sector will look for tomorrow or look like tomorrow, we have already started working on that. So yes, we are becoming a little more conscious on developing top management and leadership roles are being defined and we are aggressively looking for this year, especially we'll be concentrating on developing those things.

Especially for IT, we have picked up someone from picked up someone from a PSU who was heading -- who was the Chief Technology Officer over there. We thought that PSU engagement would be the best because given Techno's relationship with customers also around PSUs and CPS, we saw that culture fit is good. We picked up someone from E&Y for heading our finance accounts and strategic planning and other things and audit. So she will also be joining very soon.

Madhu Kela: Thank you so much. Thank you so much Gupta Ji. Thank you so much Ankit. Really appreciate giving you an opportunity, wishing you all the very best I wish that you create the most respected and the most valuable company out of this sector considering the opportunity which is there in front of us over the next 4, 5 years. All the best.

Moderator: Thank you. The next question is from the line of Venkatasubramanian from Organic Capital. Please go ahead.

Venkatasubramanian: Most of my questions have been answered. If you recall, over the last couple of calls, I have always been asking about how we are going to import ourselves with -- on the people side. So some of Ankit answers are pretty useful.

From whatever, I can see we have now clearly transcended to be a technology provider than just be a contractual obligation provider. Given this growth just now, are we getting paid sufficiently? In some of the segments, we probably should get much better margins. So are you seeing those opportunities? And if you do in which areas are they?

Padam Gupta: Absolutely, Venkat. That's why I used the word this. This is a paradigm shift for Techno now that we are no more rubbing shoulders with our conventional players limited to conventional solutions in all low end or mid-end all this sector is now having opportunities as, I call it mediocrity to technocracy or high-end complex solutions. And definitely, they have rewards in it. And we are definitely built for it. We definitely look forward to enhancing our rewards to more than 15% going forward over next 2, 3 years. And even what Madhu ji had asked, I will say the IRR looked upon by us will not be less than 18% to 20% on all these investments put together.

Venkatasubramanian: That is lovely to hear. We have always known you to be ultra-conservative and I've never seen you this excited. We can now clearly see very exciting times coming ahead, best wishes Gupta ji, looking forward.

Padam Gupta: For 8 years, this sector has only suffered and suffered but what could we have done better? Anybody going aggressively in those times would have burnt himself, I can assure you. Today is the time to benefit now. We have cash. We have a strong balance sheet. We have good credentials and we have good knowledge to -- and cash going forward opportunities. I can assure you Venkat tomorrow is day for us.

Moderator: Thank you. The next question is from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: Congratulations on a good set of numbers, sir. A few questions from my side. First is, what is the current order book and L1 position? And can you break up the order book into generation, transmission, distribution, data center?

Padam Gupta: Yes. No issue, sir. We have a total order book of about INR9,200 crores as of now unexecuted and we are almost INR1,050 crores in L1 position as of now not March, as of now, I would like to use. Out of this, I will say that about INR5,000 crores is in transmission which includes about TBCB transmission assets of all about INR3,000 crores and TBCB won by private players and Techno is about INR1,500 crores put together. FGD is about INR1,300 crores with us that is a power plant generation side.

In distribution, if you -- without smart meter, I would say that we have business worth about INR350 crores now not INR350 crores about INR400 crores you can say, including infra. And that smart meter, we have worth about INR3,000 crores to INR3,500 crores already with us and data center of course, we are not able to place a value on this concept of 5G data center. It can be a total game changer for the company going forward but I can say minimal over next 4 years, it will be at least INR1,000 crores even if I take INR10 crores per location in other registrations

Mohit Kumar: Sir, is it right to say that we have won around 100 data -- 100 edge data center. And you are saying that INR10 cores per data center, right? And so you're arriving INR8,000 crores.

Padam Gupta: Yes, absolutely. We have partnership with RailTel on a concession of 20-year basis and we will be deploying in all prominent places these data centers for them.

Mohit Kumar: Understood, sir. My second question is the order inflow. So you gave a target of INR5,000 crores. And if you look at all the underlying businesses I think be it FGD, be it data center, be it smart meter or be it transmission. I think the opportunity size will only ramp up compared to last year especially given that the fact that CTU and REC and PFC have done INR47,000 crores worth of bidding last year.

Padam Gupta: Absolutely, right, sir. It is always more gratifying or satisfying you say INR5,000 crores, achieve INR8,000 crores rather than other way around and we like to pick and choose going forward now. That is our aim. This reward must be evaluated very properly which we have done and we should be able to do a contract in time.

So all these factors will keep in mind, sir, but you have a point the opportunities are a lot bigger than the number I have given you. Hopefully, I will beat my own number sir and I am here to do that.

Mohit Kumar: Understood. Last question sir do you intend to keep bidding for TBCB assets on our own balance sheet or is that the two which one is enough for now?

Padam Gupta: Can you repeat your question, sir?

Mohit Kumar: Do you intend to keep bidding for new TBCB assets on our own balance sheet?

Padam Gupta: Yes we are doing it sir. Absolutely.

Mohit Kumar: Last year you want to, but you want to do more given the TBCB pipeline is humongous this year?

Padam Gupta: Sir, but we don't want to aim at each concession capex or more than INR500 cr, INR600 cr. On an average, we want to be in a low capex solutions so that IRR available to us is larger than what is available in competition to giants like Power Grid and Adani or others. So we want to be in a safe heaven.

Mohit Kumar: Understood. Thanks and all the best sir. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek from Naredi Investments. Please go ahead.

Abhishek: Sir, my first question, what is capex stand for our entire company and especially for smart meter and transmission segment for next 2 years?

Padam Gupta: Sir, already I've stated it will be in total, you can take almost about INR5,000 cr for 2 years, INR2,500 cr each year.

Abhishek: And second question regarding smart meter it is perspective cash consuming business before the smart meter delivered today and you received money in 93 months. Can you rethink this business model because it is a heavily cash consumed business?

Padam Gupta: See there is a period to deploy meters all meters are not to be deployed on the zero debt what the system means that you have to deploy it in 27 months and the first lot of 5% must be achieved at first 6 months thereafter 5% every that is the model, sir. So from seventh month itself you are [inaudible 48:56]. Not everything happens after 27 months. So you have a progressive competition, progressive revenue accretion. There is some disturbance in the system, ma'am. Can you hear me now, sir?

Abhishek: Yes.

Padam Gupta: Yes, some disturbance was coming in this point here. So there is a revenue accretion from 7 months to 27 months also. All is not happening after close of the scheme that is a duty part of it number one. And number two you see if we like it between we can always discount or scrutinize our bills with REC PFC under the very scheme. And they are very eager to build up their books if we like post revenue attrition.

What I have said is that the capex we want to do out of our books, but once a meter or a lot of meter is ready for opex we can always monetize it, partially also progressively also and completely also as a SPV. So all those choices are on our table.

Abhishek: So going forward we bid 2 million smart meter annually?

Padam Gupta: No, sir, monthly. There is DDF facility. They call it direct debit facility in the program. The agreement with a banker itself of the utility. Banker is a party to it. He gives -- he is supposed to debit the utility account collected month-on-month from the consumers. So he has to debit my payout first as the obligation. So the mechanism is healthy and we hope that there is no abuse to it.

Abhishek: Okay. And sir last question how much capex -- so much capacity you are planning. So why you give such a handsome dividend you must keep the money for long growth of the company?

Padam Gupta: We have been always rewarding our investors and still keeping a fiscal discipline. We are totally a debt-free company. We ourselves have a cash of INR1,500 cr, so paying a dividend I think my investor deserves a dividend payout of at least as a dividend payout policy of the company which is 25% of the bottom line. So we are honoring the dividend policy of the company.

Abhishek: It goes one side you pay dividend and other side you raise money from QIP. It is good?

Padam Gupta: It is good for the investor, sir. QIP gives you the value accretion to the stock and dividend gives you the cash. I think every investor looks for that sir.

Moderator: Thank you. The next question is from the line of Dhiral from PhilipCapital. Please go ahead.

Dhiral: Good afternoon sir. Thanks for the opportunity and congratulations for the great set of numbers. Sir, you talked about INR5,000 crores the capex for next 2 years. So if you can bifurcate where this amount will be utilized for which segment?

Padam Gupta: Sir at the moment you can take it about 25% into data centers and 25% into your TBCB another 50% into smart metering.

Dhiral: Okay. And sir, any time line by which you want to raise QIP so that we can able to utilize the fund?

Padam Gupta: By September.

Dhiral: Sorry sir.

Padam Gupta: We'll complete it by September of this year.

Dhiral: Okay. In the initial commentary you mentioned that we have also L1 in the Punjab smart meter and cost of the smart meter is almost INR35,000 to INR37,000. So any reason why is that a high amount for that project particularly?

Padam Gupta: Sir that is the type of metering required in the feeders. Feeder metering is very different than consumer metering. There are multiple applications of the meters whether it is a DT meter, it is 3-phase meters, single-phase meter, feeder meter. So all meters are not priced equally. They are of different properties.

Dhiral: Okay understood. Thank you so much.

Moderator: Thank you. The next question is from the line of Chinmay Kabra from Emkay Global Financial Services. Please go ahead.

Chinmay Kabra: Congratulations on a good set of numbers. Sir, I just wanted -- I had a request if you could just repeat the guidance that you had initially given for FY '25 and '26?

Padam Gupta: 24, '25 our top line will be INR2,500 crores [inaudible 0:55:00] that was the guidance we gave. And for '26, '25, '26, INR3,500 plus as a top line and EPS of no less than INR50.

Chinmay Kabra: And if I'm not wrong the guidance for margins is to -- I mean, what is the guidance for margin sir if you could just.

Padam Gupta: We continue to maintain at 13%, sir.

Chinmay Kabra: All right. Those were my question. Thank you.

Moderator: Thank you. The next question is from the line of Shreyans Gathani from SG Securities. Please go ahead.

Shreyans Gathani: My question was actually on the data center side. We've invested INR300 crores of the INR1,200 crores that we intend to. So just wanted to know what is the -- I know that the capex is going to be back-ended mainly, but trying to understand where -- what is the status of the project since we've seen delays?

Has there been any redesigning or anything as such and my next question was on the partner that you're looking at. What is the status on that? Because since the last 6 months to 9 months we've been guiding that we are working with a few partners for the project?

Padam Gupta: Yes. Basically, the total project is INR1,200 when all 40-megawatt or 24-megawatt of IT is completed. At the moment we are doing Phase 1 only on 6 megawatts. The capex for 6-megawatt is almost about INR450 crores out of which we have spent INR300 crores plus. And this will be now in a last leg of the work going on more on electromechanical side and instrumentation side which should be completed by September end.

Yes, there has been a bit of a delay because of the delay in civil works largely because last time there was a weather and cyclonic impacting Chennai and the labor was almost missing for 2 months, a lot of water logging happened in the city, not to our project. So all that have impacted a bit, but of course redesigning also is an ongoing exercise as we -- our new directors are guiding us to run more hands on than the our consultants deployed initially

So all put together I will say that it has been worth the time spent on the assets. Still we are able to keep and make it ready within 2 years from the date of taking up the projects.

Shreyans Gathani: Got it. That is very helpful to know. So the first phase, you're looking at operating by ourselves or is that going to be with a partner as we had initially envisaged?

Padam Gupta: We are open to both. Otherwise, we are ready to do ourselves absolutely.

Shreyans Gathani: So do you have any plans in the pipeline as of yet or we are going to start looking going forward?

Padam Gupta: No, we are in this market. People approach us. We talk to them. We adapt to them and it's an ongoing exercise.

Shreyans Gathani: Got it. So just last question. So when should we expect the 24 megawatts to be operational?

Padam Gupta: You can take it March '26.

Shreyans Gathani: March 26.

Padam Gupta: Yes.

Shreyans Gathani: Okay. So let us say you are in a almost 2 years from now?

Padam Gupta: About 18 months from the date of first phase.

Shreyans Gathani: Okay got it. Thank you so much.

Moderator: Thank you. The next question is from the line of Chintan Doshi from Wealth Plus Financial Solutions. Please go ahead.

Chintan Doshi: Congratulations for a very good set of number. Sir have a question on the data center part that you just mentioned that you just received a land from the Kolkata data center to be set up. So are we also -- do we have any timelines for this particular project to get started for the Kolkata because you just mentioned this on the call for the first time?

Padam Gupta: Yes. Definitely, we -- it is already in design phase now let me say and first set of design should be available to us by no later than October I can say and we should be starting construction of this project by January '25.

Ankit Saraiya: Okay. Second question, sir that -- I just want to understand the thing about. So normally, in 1 megawatt, if I can understand the costing of 1 megawatt data centre is roughly going at INR45 crores, right? So how we are planning to monetize it? I mean are we really looking to sell the data center after we like built it out? Or are we looking to lease out the capacity. So have you planned on the model of monetization of the data centres? Or are we looking to like, register like we are going to run by ourselves, so any kind of guidance or any kind of an update like what we are looking forward to monetize the data that we are going to create.

Padam Gupta: Ankit, will you like to answer this question?

Ankit Saraiya: Yes, sure. So as far as monetization is concerned, we've always maintained that we are looking for a strategic partner over the last 2 years of construction. And my bit to this would be that you see very recently, we were successful in a bid by RailTel, where we have to establish some 100, some edge data centers in 100 locations across India, which covers almost 23 states out of 28 states, giving us the widest presence of data center in the country or makes us the largest DC operator by in terms of number of data center and capacity now.

And when we and post receiving the LOA for this order -- for this project, though we have not -- technically, we have not announced it yet, but post receiving there's a shifting strategy that we actually don't want to exit our Chennai project. We would like to operate it, we would like to lease it because the kind of ecosystem that we will be sitting on considering that we have 2 large data centers coming in Chennai and Kolkata, which will be interconnected to all these 102 edge data centers per se or let's say, more than 102 edge data centers, 102 locations. It's going to be an ecosystem which cannot be replicated by anyone in the country for at least next, I would say, 7-8 years.

And with this unique proposition, I think the infrastructure and the model that we will have, it's one of a kind, especially for a country like India. We will be reaching almost, I would say, 50% of India's population at the lowest latency level possible. So technically, also, it's going to be extremely sound. Now given this position of the company, and the project and then the entire vision of the data center vertical, at least we would like to hold on to these assets for some time unless we are able to double down on the values. And we'll be able to find some really interesting customers given this position today.

There no one can today match this infrastructure, the one which we'll be sitting on after having RailTel because trying to find railway has which is in the center of every city, you will be located in the most densely populated areas.

You are sitting on 80,000 kilometers of fiber, which is owned by RailTel project as part of railways, which is only available -- which is not available with anyone, but it's close to with only Jio and Airtel. So these kind of -- and power comes from railways, the power, which we'll be using for data center also comes from railways. The input side is completely managed, whether we talk land fiber power. So this unique proposition is why we want to keep on to that Chennai project and see what valuation we can create for Chennai given this ecosystem now.

Ankit Saraiya: Just I'm sorry to just additional question to this is that basically the cost that INR45 CR per megawatt, isn't high enough because they are a competitor in the market. I would not like to take the name, but they're also building a data center and there like you can see a lesser amount of money required for 1 megawatt compared to INR25 CR because they have their own land in hand. So are we also looking forward for the same rate? I mean, is like in Kolkata or any other data center that we have going forward, are we going to remain with the same range of like INR45 CR per megawatt? Or are we going to try to come down or bring down our cost for building that data center?

Padam Gupta: We are in this range only, sir, or maybe lower. We don't want to be in high land cost brackets. They are very economically procured land parcels by us from the government. And the budget will be below it only. It will be no more than INR40 CR, INR45 CR per megawatt.

Ankit Saraiya: And if you can just give us that what is the market like we lease out because we don't have the number, sir. If we lease out right now, you must have idea about the market. If we lease out after completing the data center 1 megawatt, what will be the potential that one can generate in a lease income on 1 megawatt. So that will give us an understanding of how the data center business will look like for our Chennai data center?

Padam Gupta: Data center is an intelligent institution or installation, the value paid here depends on the users to what use he puts that installation to. The tariffs vary in this market anywhere from $60 to $100 plus, depending on what kind of use he's able to put to. So it is very user specific. So we will always look for more of the users who matches the specs of the data center as a first choice but as an interim choice to get it occupied, we may a bit compromise for some time here and there, but that will not be the business policy on a sustainable basis.

At the end of the day, your asset has to be deployed too far what it is worth and for which owner is putting into us, it is affordability concept. It is the value of the data center lies in its affordability. It is not a commodity, sir, that you buy, if somebody sells that X, you must sell that X minus Y. It is not so.

Ankit Saraiya: Okay, sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Congratulations on a good set of numbers. Sir, in this quarter, we saw a little bit lower sort of in terms of revenues. So were there any one-offs and which could have got spilled over into quarter 1 of this year?

Padam Gupta: Yes and no, both, sir, because land acquisition to the power grid and other private players is posing a bit of a delay of 6 months. So many orders, which we got last year, still land is not provided to us. So progress happened here when land is provided to you by the agency, whether it is power grid or sunlight or Adani or in-grid. So those are the issues, which we believe are short term. Otherwise, definitely, we could have added another INR200 crores had land happened in time.

Sarvesh Gupta: And on this railway data center, sir, what -- because we have bidded for it and we have received the LOA. So what is the kind of expenditure that we will have to incur? What will be our revenue model to earn from this opportunity? And if you can throw some light on how this makes us one of the largest player in terms of the total size, not the numbers but total size of data center. I could not understand this because you also alluded to some figure of around INR1,000 crores, which looks very small. So can you please shed some more light on this project?

Padam Gupta: Ankit, will you like to answer it?

Ankit Saraiya: Yes. So just to -- as I was mentioning that this project has to be done at 102 locations. And the reason why the number of INR1,000 crores came forward is because we are estimating, because today, it is not defined that what would be the size of each data center at the respective location. It can be of varied sizes. It can start from 100-kilowatt going into a couple of megawatts or more. So it depends on the land that we get ultimately, we desire and get allotted from railways.

And depending on the land size and the potential of business at each of these locations that we can decide on the size of the data center. So it's very difficult to quantify the capital required today but considering the minimum size that we would think of doing in every location, let's say, even if we think of 100 kilowatt to begin with, it turns out to be a INR1,000 crores-odd investment. But obviously, if in any location, we see potential of more in megawatt terms, we will keep expanding location over the time because it's a concession of almost 25 years.

Sarvesh Gupta: And what is the time line for the initial execution?

Ankit Saraiya: We will -- 20 locations every year. And in 5 years, we have to complete 102 locations. That means the last year, we have to do 22 locations. We can do more also but minimum is 20 locations every year. So we'll keep a commissioning target of 12 months from the date we are allotted to land.

Sarvesh Gupta: And how is this related to your -- the other 2 data centers business, how does -- what synergies are created and what is the revenue model for this railways data center that will be provided to you?

Padam Gupta: Please visit our office for detailing. On a conference call, I think you will feel -- it is very elaborate answers to your questions to justify that.

Sarvesh Gupta: Sure, sir. I'll do that. Sir, last question is that now we also spoke about scaling the internal organization to be able to cater to this about large opportunities, which are opening up, but if I look at this year number, sir, we are only seeing around 10% or increase in the employee and other expenses. So much so that most of our EBITDA increases actually happened because our overheads have not increased at the pace of our revenues, even though our gross margins have declined.

So how do you see that? Should we see a large increase next year onwards because of all these people coming in, new offices getting opened? How will that translate to next year? Because this year, somehow, it is not visible in the numbers? And how should that impact our overall margins next year?

Padam Gupta: You see, although we are investing in the growth but definitely, it won't impact the margins because we are growing with the productivity. Growth is productive and we'll match our costs with the growth happening in the company. And definitely, this year, you will find more growth than last year. And secondly, sometimes it depends on how you book the cost. These costs what you see are happening more in the field, and we take these costs as a part of the job cost itself. So, that is only the method of your topic policies sometimes. It will be growing with it.

Sarvesh Gupta: Again, congratulations, sir, and look forward to better numbers, even better numbers next quarter onwards. Thank you.

Moderator: Thank you. The last question is from the line of Amit Anwani from PL Capital. Please go ahead.

Amit Anwani: My question, again, on the, sir, RailTel opportunity, which you highlighted about INR1,000 crores. Is it fair to assume that we are factoring in some 20-25-megawatt collectively that is one? And second, concession, you mean to say the first 5 year will be building this data centers and next 20 years, 25 years, we'll be maintaining this data center. So this will be on our balance sheet or how the model is going to work? And third thing is how will be the funding for this INR1,000 crores capex, which you have highlighted for the edge data centers, yes?

Padam Gupta: Ankit, please answer.

Ankit Saraiya: Yes. So it's not 20-25 megawatt. We are considering let's say, about 10-odd megawatts for the entire 102 locations, minimums, that I'm saying. And edge data centers are a little more capital intensive than regular data interest because of the technology that goes into it. And you don't achieve those economies of scale of large data centers, but then rewards are also accordingly priced in the market, like-to-like.

Secondly we'll be doing 100 data centers in 5 years, like 20 data centers every year. And yes, we have to operate these data centers. It's almost like a DBFOT project, where we design, build, operate, finance and then after 20 years, 25 years, we have to transfer it back to RailTel and so that's largely the project. And at least initial few projects, we will be funding it internally through internal accruals of Techno Electric. And as we gain customers, we can go for financing in -- for the future deployments.

Amit Anwani: So will it be kind of 70-30 funding typically which happens for any project?

Ankit Saraiya: Difficult to say today because one needs to understand the cost and reward ratios for edge data centers. It is something which is not the practice in India today. It's largely practice only in US. and Europe. It is the first time it's happening in India. So we'll have to also learn what financial modeling is possible. But yes, we should be able to do at least 60-40, if not 70-30.

Amit Anwani: And sir, lastly, any IRR or any metrics, return metrics, which you're looking for, for this project?

Ankit Saraiya: Largely for data centers, the IRR should be in high teens to early 20. So there is no difference when it comes to edge or a large data center because edge data center is also a data center only just because it's closer to the consumer or consumption point, we call it at the edge. So that's the only difference. So yes, IRR's return portfolio will also remain the same.

Amit Anwani: And can we say that this is just a pilot project, and there could be many more edge data centers? What opportunities there from RailTel with respect to this projects next 2 years, 3 years?

Ankit Saraiya: I don't know. Difficult to say. I don't see RailTel coming out with more such projects because they have consumed their entire 100. Difficult to say. Maybe they come for more idea that question for that. But yes, edge data centers are bound to grow in India, and it has an exponential potential, especially for a market like India, which is so widespread by geography, edge has great potential.

Amit Anwani: Thank you very much for all answers. Thank you. All the best.

Moderator: Thank you. Ladies and gentlemen, we'll take this as the last question. I now hand the conference over to the management for closing comments.

Ankit Saraiya: Thank you all for joining the conference call. And we'll be happy to address any query that you may have in relation to our performance or whatever that has or is discussed or if you would like to know more. Everyone's welcome to our office, have interactive sessions to learn more about what we are doing and what we plan to do going forward. And with this, I'd like to close the conference and thank everyone for taking out a valuable time in joining us.

Moderator: Thank you. On behalf of Asian Markets Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.